

Income Tax Information Bulletin #80

April 1997

(replaces bulletin dated May 1995)

Disclaimer: Information bulletins are intended to provide non-technical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

Subject: HUMAN SERVICES TAX DEDUCTION

References: I.C. 6-3-1-3.5(a)(13); I.C. 12-15-7-5

Purpose of Deduction

There are instances in which persons who are receiving Medicaid may have a source of taxable income such as a pension or annuity or be entitled to a monthly personal allowance. The receipt of this income gives rise to state and local income tax liabilities. However, an individual on Medicaid is allowed to retain an amount equal to the individual's state and local income tax liability. The human services tax deduction is intended to alleviate any individual income tax burden which might be imposed on Medicaid recipients who are living in a hospital, a skilled nursing facility or an intermediate care facility. The goal of the human services tax deduction is to reduce the individual's adjusted gross income tax liability to zero (0). The deduction cannot be used in conjunction with any tax credit in order to create a refund to the taxpayer.

Persons Eligible

This tax deduction is available to persons who receive medical assistance payments (known as Medicaid), who are not living at home and who are receiving care in a hospital, a skilled nursing facility, or an intermediate facility.

Persons Not Eligible

Persons who are receiving assistance as residents of county homes (known as ARCH) are not entitled to the tax deduction.

Persons who are receiving room and board assistance (known as RBA) are not entitled to the tax deduction.

Individuals who receive either ARCH or RBA benefits are entitled to retain enough income to pay their state and local income tax liability. Persons who receive ARCH or RBA benefits should contact their county welfare department for additional information.

Computing the Deduction - Full Year Resident

An individual who has lived in Indiana for a full year must file Form IT-40, Indiana Resident Individual Income Tax Return. Once an individual has determined eligibility for the tax deduction, the next step is to compute the deduction. The deduction is claimed on Schedule 1, Indiana Deductions, Line 17.

Step #1

Complete the IT-40 without using the human services tax deduction. If the total Indiana Credits on Line 23 is greater than the Total Tax on Line 17, you are not eligible to claim the deduction. However, if the Total Tax on Line 17 is greater than the Total Indiana Credits on Line 23, go to Step #2.

Step #2

Complete a second IT-40 using the human services tax deduction as computed in this step. Take Line 8, Indiana adjusted gross income figure computed in Step #1 and place the sum on Line 7 of the IT-40. This sum is the amount of the human services tax deduction to which you are entitled. This figure should also be entered on Schedule 1, Line 17 labeled Human Services Tax Deduction.

- A. The deduction should reduce your adjusted gross income to zero (0). Enter zero (0) as your adjusted gross income on Line 8 of the IT-40.
- B. The deduction should also reduce your state taxable income to zero (0). Enter zero (0) as your state taxable income on Line 12 of the IT-40.

Note: The human services tax deduction may not be used in conjunction with any of the tax credits in order to create a refund to the taxpayer. These credits include the College Credit, the Unified Tax Credit for the Elderly and the Indiana Credits on Schedule 2.

Computing the Deduction - Part-Year Resident

A part-year resident is an individual who maintains a legal residence within Indiana for part of the tax year. A hospital, skilled nursing facility, or an intermediate care facility are considered a residence for the purposes of this deduction. Part-year residents must file Form IT-40PNR, Part- Year Nonresident Indiana Individual Income Tax Return. Once an individual has determined eligibility for the tax deduction, the next step is to compute the deduction. The deduction is claimed on Schedule D, Indiana Deductions, Line 17.

Step #1

Complete the IT-40PNR without using the human services tax deduction. If the Total Indiana Credits on Line 20 is greater than the Total Tax on Line 14, then you are not eligible to claim the credit. However, if the Total Tax on Line 14 is greater than the total Indiana Credits on Line 20, go to Step #2.

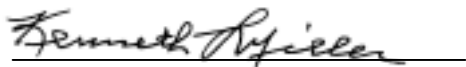
Step #2

Complete a second IT-40PNR using the human services tax deduction as computed in this step. Take the figure computed in Step #1 and place that sum on Line 2, Indiana Deductions of the Form IT- 40PNR. This sum is the amount of the human services tax deduction to which you are entitled. This figure should also be entered on Schedule D, Line 17 and labeled Human Services Tax Deduction.

- A. The deduction should reduce your Indiana adjusted gross income to zero (0). Enter zero on Line 3 of Form IT-40PNR.
- B. The deduction should also reduce your state taxable income to zero (0). Enter zero on Line 9 of Form IT-40PNR.

Note: The human services tax deduction may not be used in conjunction with any of the tax credits in order to create a refund to the taxpayer. These credits include the College Credit, the Unified Tax Credit for the Elderly, or Indiana Credits on Schedule E.

Questions concerning the human services tax deduction should be directed to: Indiana Department of Revenue, Taxpayer Services Division, IGCN 105, Indianapolis, In 46204, or you may call (317) 232-2240.



Kenneth L. Miller
Commissioner